

VZCZCXRO5680
PP RUEHBC RUEHDE RUEHIHL RUEHKUK RUEHMOS
DE RUEHGB #0917/01 0791742
ZNY CCCCC ZZH
P 201742Z MAR 06
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 3437
INFO RUCNRAQ/IRAQ COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHMFISS/CDR USCENTCOM MACDILL AFB FL PRIORITY
RHEBAAA/USDOE WASHDC PRIORITY
RUCPDOG/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 04 BAGHDAD 000917

SIPDIS

SIPDIS

E.O. 12958: DECL: 03/19/2016

TAGS: [ECON](#) [ENRG](#) [EPET](#) [IZ](#) [PGOV](#) [PREL](#) [KCOR](#)

SUBJECT: ZELIKOW-CHALABI DISCUSSION: GOVERNMENT PRIORITIES
AND MAJOR HURDLES

Classified By: CHARGE D'AFFAIRES DAVID M. SATTERFIELD FOR REASONS
1.4 (B) AND (D)

¶1. (C/REL GBR AUS) Summary: In a March 16 discussion with Department of State (DoS) Counselor Philip Zelikow, Deputy Prime Minister (DPM) Ahmad Chalabi took deserved credit for a series of strategic and tactical victories to meet the ongoing energy crisis during the past week, the most important of which was a Council of Ministers' action to approve liberalization of the imported fuels market. Asked to offer advice on building blocks for an initial government program, Chalabi identified building government legitimacy, provision of basic services, increasing revenues, and control of corruption as fundamental tasks. The DPM responded favorably to the idea of an "International Compact for Iraq" and, in his initial reaction to the idea, concentrated on lack of governmental capacity at all levels as an area for cooperation. Chalabi also offered some grades, quite good to failing, for a number of the ministries, following up with his advocacy for Ja'fari's continuing as Prime Minister. Finally, on Iran, Chalabi concurred that the Iranians were not anxious to see Iraq succeed. But he added that current policies seemed largely motivated by fear and a siege mentality. End Summary.

An Eventful Week

¶2. (C/REL GBR AUS) DoS Counselor Philip Zelikow led off a March 16 discussion with DPM Ahmad Chalabi with congratulations on the latter's leadership in pushing an administrative measure through the Council of Ministers to open the petroleum product market to imports -- an initial critical step for the marketization of the petroleum sector and for meeting the ongoing fuel crisis. In response, Chalabi thanked the Embassy for its advocacy and text assistance, noting that the Ministry of Oil had been charged with immediately drafting implementing instructions. He then ticked off a whole series of other measures taken during the week to meet various aspects of the fuel and energy crises: prospective installation of metering equipment in the oil fields; enhanced monitoring of maritime tanker loadings; first post-war train delivery of fuel product from the Bayji refinery to Baghdad; and the approval of a quarter of a billion USD in spare parts for power generation. Chalabi agreed that the initiative appeared to be slowly shifting to the Government of Iraq (GOI) and its allies in the energy area and liked the comparison of the "energy battle" with the WWII "Battle of the Atlantic."

13. (C/REL GBR AUS) Asked to step back and provide broad advice on basic building blocks to guide an initial government program, Chalabi identified security, provision of services, the budget, and corruption as primary areas of concern.

(a) On security, Chalabi took a broad view, offering that the acceptance of "government legitimacy" throughout Iraq would be the true measure of security. Recounting a horrific anecdote about inter-sectarian violence in which, the previous day, he had barely saved a friend from execution in Sadr City and had then taken him to be treated for his injuries, Chalabi observed that the security forces are often seen as "killers." "Ordinary people get kidnapped or killed while the elites negotiate the release of a handful of the well connected." He argued that the police and army must become impartial forces with confidence of all communities -- with improved training and better intelligence playing roles in the restoration of popular confidence in these institutions. Asked about when or whether the government should confront Shia militias that were taking over Sadr City, Chalabi was firm. The time for that, he said, was now.

(b) For the improved provision of services, Chalabi outlined an activist approach. He flagged the need to move ahead with the joint U.S.-Iraqi energy plan, with both sides taking specific responsibility for individual items. Referring to the Council of Ministers' action to liberalize fuel imports, he added that the entire production and import of fuel products needed to be "rationalized." He

BAGHDAD 00000917 002 OF 004

also expressed a desire to "immediately" take the Bayji refinery complex under control of the government. (Comment: The reference here is to the penetration of Bayji management and staff by black marketers and terrorist sympathizers. End Comment.) He added that redundancies in the petroleum area would be coming on line, with road, rail and pipeline shipments complementing each other. On a downbeat note, he acknowledged that Fadhila Party personnel inside the Ministry of Oil had derailed Prime Minister (PM) Ja'fari's order to restore the dismissed head of the State Oil Marketing Organization (SOMO) to office. He implied that Fadhila attempts to manipulate various oil contracts coming in through the South were to blame for recent shortfalls in Kuwaiti shipments of gasoline and other products. He called this situation a difficulty for Ja'fari, who is unable to compel Fadhila behavior, given his need for their parliamentary support.

Chalabi appeared particularly pleased with progress made in the rationalization of the Public Distribution System (PDS) -- the universal entitlement system supplying basic commodities and some other goods to all Iraqis. He noted that the government had improved its procurement procedures for bulk goods like wheat, rice and sugar, achieving lower cost deliveries from foreign suppliers. At the same time, the government had shifted to domestic suppliers for other goods, even offering credit support to importers and traders, in order to stimulate domestic production or local procurement of agricultural and other products. Recognizing the need for the GOI to step away from non-targeted universal entitlements, Chalabi affirmed that budget allocations for commodity purchases would continue to fall and that the entitlement rolls would be pared -- beginning with government officials making more than 1.0M ID per month.

(c) Budget difficulties would be improved, according to Chalabi, through the elimination of oil "thievery" via metering in the oil fields and appointment of government inspectors. Optimistically, he stated that Iraq could

potentially overtake Iran as an exporter by the end of the year. He came to that conclusion by adding the restart of northern exports (0.5 mbpd) to the potential increment (0.8 mbpd) provided by ongoing well workovers in the South. Pushed by Counselor Zelikow to examine the political ramifications of sharing out oil revenues, Chalabi conceded that the question hit square on the matter of national unity. Even without northern exports at present, Chalabi claimed that the Kurds were drawing 17 percent of oil revenues. He mused that the Kurds would like to develop and get their own oil out to market, but opined that the "Turks won't accept" an independent arrangement. "We need some wisdom here", he added. Finally, Chalabi underscored the real weaknesses of the provincial administrations in spending their budgets intelligently and asked for our assistance in training personnel in budgeting and procurement.

(d) Chalabi repeated a warning on corruption that we have heard him use before, that "it is as dangerous as terrorism." He said there were "powerful people" involved and acknowledged that he was having difficulty supporting either Judge Rahdi, chairman of the Commission on Public Integrity (CPI - one of the three key institutions engaged in anti-corruption activity) or the Central Criminal Court of Iraq (CCCI - the venue for anti-corruption judicial proceedings). Turning to a controversial point, Chalabi complained that he could not seem to get cooperation on tracing money that disappeared during the celebrated Ministry of Defense (MoD) procurement scandal last year. (Note: The GOI has demarched the Embassy and Department seeking our assistance in having the Jordanian Government provide information on money flows to and through Jordan in connection with the MoD case.)

Optimistically, Chalabi claimed that 90 percent of major procurement corruption has disappeared as a result of the scrutiny now given to all contracts valued at more than USD 3.0 M. The mechanism for this attention is a contracting committee chaired by Chalabi himself, upon which also sit the ministers or designees from major institutions, including the Ministries of Trade, Finance and the Supreme Board of Audit (SBA). To date, Chalabi noted that the committee has met 60-odd times, both approving and rejecting hundreds of contracts. With amusement, he said that the procedure has created "fear" among ministries which might be tempted to bring forward specious contracts for consideration.

BAGHDAD 00000917 003 OF 004

International Compact for Iraq

14. (C/REL GBR AUS) Counselor Zelikow then raised the idea of an "International Compact for Iraq", acquainting Chalabi with current thinking on the idea. He stressed that the Compact would permit reciprocal acceptance of obligations by the international community and Iraq. Both sides would work toward establishing enforceable mechanisms governing their contributions toward economic and political development. He urged Chalabi to look at the example of Afghanistan, where a comparable effort had produced new interest from donors and much improved fulfillment of pledges of assistance. Counselor Zelikow added that the USG would like to see the Compact developed as soon as possible after the inauguration of the new government. To that end, he encouraged Chalabi to begin thinking of those items where international assistance would be particularly useful. As an example, he noted that Iraq might posit a "normal budget" for itself (assuming restoration of infrastructure and some oil production gains) that would permit the provision of desired services, construction of infrastructure and so forth. As described by the Counselor, in exchange for Iraqi pledges of

measurable actions, the international community could pledge resources to make up for temporarily lacking Iraqi revenues.

15. (C/REL GBR AUS) In response, Chalabi began a discussion of capacity shortfalls that might be addressed by donors. For example, he noted that the lack of financial and auditing capacity meant that the GOI cannot spend the money it has now in a responsible manner. The governorates were said to be weak at all levels and in all areas of responsibility. Banking services are not adequate for standard consumer needs and certainly cannot assist in a major policy initiative like privatization. The housing sector is estimated to have a 2 million unit shortfall, yet promoting private sector developers and housing credits could be, in Chalabi's view, powerful economic drivers.

Ministerial Report Card

16. (C/REL GBR AUS) Looking at prospective government formation, Counselor Zelikow asked about the respective strengths and weaknesses of the major ministries. Chalabi averred that the picture was mixed, with the critical point everywhere being the quality of leadership at the top. Quickly running through some of the major ministries, Chalabi offered the following thumbnail descriptions:

Finance - Best by far, with discipline and quick availability of critical information. Government assets are adequately controlled, and there is a realistic evaluation of capacities of other ministries. Major task before it is the need to improve the condition of state banks with an eye toward their sale.

Oil - Terrible situation, lacking in discipline and under sectarian control (Fadhila). Each deputy minister has carved out his own fiefdom, and massive reform is needed.

Electricity - Better, but also in need of reform. Lower levels are ready to respond to good leadership.

Trade - Broken down under the influence of corruption. Suspect links with "shady merchants" all over the world.

Transport - Similar to Oil, but currently improving after decision taken to move to FOB import of bulk commodities for the PDS, thus exposing bogus charges associated with services and transportation of earlier contracts.

Agriculture - "Ignorance reigns" with no attention to the needs of farmers.

Water - O.K., but needs help to persuade the Turkish Government to cooperate on water use and long-term planning.

Municipalities - "Considerable corruption."

Health - In a terrible state. Brought 61 contracts to the contracting board, and all were rejected. Another example

BAGHDAD 00000917 004 OF 004

of what results from the idea that individual political parties "own" certain ministries (in this case, the Sadrists).

Education/Higher Education - "Pretty good."

Interior - "The minister doesn't go to his office. Each floor is controlled by a different party, and none of them talk to each other."

Looking East to Iran

¶7. (C/REL GBR AUS) Counselor Zelikow probed Chalabi's views on Iran, noting that he did not think Iran shared the desire of the U.S. for Iraq to become "rich, strong and independent", given that Iraq could thus become an investment magnet and major oil competitor. Chalabi responded that Iran is "motivated by fear" and is afraid the U.S. will have interests in Iraq that will threaten it. He then contrasted that Iranian view with that of the Turks who, he said, favored Iraqi development. Stating that the U.S. gave the Iranians altogether too much credit for planning, Chalabi opined that both the Iranian elite and revolutionary guard were preoccupied with the idea that Iran is under siege. He thought that Iran, in fact, was fearful politically, economically and militarily. He claimed that the Iranians were vulnerable to covert action (without making any suggestions) and offered that they were "causing" Al Sadr's forces to undertake offensive actions against U.S. military. As encouragement for that, he noted that the Iranians had backed a "winning campaign" by Hamas in Palestine and had worked to push Israel out of Lebanon.

A Few Thoughts on Government Formation

¶8. (C/REL GBR AUS) Offering some concluding thoughts on the status of government formation, Chalabi contended that there was a great deal of tension within the United Iraqi Coalition (UIC), with Ja'fari's popularity recently moving up. He said that the UIC will simply find it too difficult to replace Ja'fari at this stage and claimed that two days of closeted discussion had produced no change in the situation. Giving a nod to American concerns, Chalabi said that Ja'fari is fully prepared to cooperate on security matters and that any fear that he would permit the Mahdi Army to operate freely is a "huge exaggeration."

Comment

¶9. (C/REL GBR AUS) At this point it is not clear whether Ahmad Chalabi, great survivor though he is, will actually end up with a ministerial appointment. We are told that his current preeminence, as acting Finance Minister and "Energy Czar," is regarded as something of a "poison pill." In other words, the problems of meeting the current energy crisis are seen as so daunting that his inevitable failure would have a personal political impact welcomed by many. Nevertheless, by sheer energy and decisiveness, Chalabi may succeed. His list of the week's accomplishments in the energy sectors, including both strategic and tactical victories, is an indication of that. Moreover, his political sense continues to be impressive, and his list of building blocks for a new government's opening agenda is good. Finally, his reception of the idea of an "International Compact" should be seen as altogether positive, though his reactions were off-the-cuff.

¶10. (U) Counselor Zelikow cleared this message after his departure from post.
SATTERFIELD